

# MNQUMA LOCAL MUNICIPALITY



## INVESTMENT POLICY

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## TABLE OF CONTENTS

|  |   |
|--|---|
| 1. DEFINITIONS.....  | 2 |
| 2. PURPOSE OF THIS POLICY .....                            | 2 |
| 3. REGULATORY FRAMEWORK .....                              | 2 |
| 3. IMPLICATIONS OF THIS POLICY .....                       | 2 |
| 4. OBJECTIVES OF THIS POLICY .....                         | 3 |
| 5. LINKS TO OTHER POLICIES .....                           | 3 |
| 6. POLICY STATEMENTS .....                                 | 3 |
| 7. INVESTMENT ETHICS .....                                 | 4 |
| 7.1. INVESTMENT PRINCIPLES .....                           | 4 |
| 7.1.1. LIMIT EXPOSURE TO A SINGLE INSTITUTION .....        | 4 |
| 7.1.2. RISK AND RETURN .....                               | 4 |
| 7.1.3. INVESTMENTS DENOMINATED IN FOREIGN CURRENCIES ..... | 4 |
| 7.1.4. BORROWING FOR RE-INVESTMENT .....                   | 4 |
| 7.1.5. NOMINEE ACCOUNTS.....                               | 4 |
| 7.1.6. REGISTERED FINANCIAL INSTITUTIONS .....             | 5 |
| 7.1.7. CREDIT WORTHINESS .....                             | 5 |
| 7.1.8. CONTROL OVER INVESTMENTS .....                      | 5 |
| 8. PERMITTED INVESTMENTS.....                              | 5 |
| 9. REPORTING .....   | 6 |
| 10. APPROVAL OF THIS POLICY .....                          | 6 |
| 10.1. CONSULTATION.....                                    | 6 |
| 10.2. FINAL ADOPTION.....                                  | 6 |
| 10.3. IMPLEMENTATION AND REVIEW OF THIS POLICY .....       | 6 |
| 10.4. AUTHENTICATION .....                                 | 6 |

## 1. DEFINITIONS

In this policy the following words shall have the meanings assigned as follows: -

- 1.1. **"Act"** means the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003),
- 1.2. **"Accounting Officer"** refers to the Municipal Manager of the municipality,
- 1.3. **"Chief Financial Officer"** refers to the head of the Budget and Treasury Office,
- 1.4. **"Investment Register"** refers to an electronic spreadsheet which contains details of all municipal investments,
- 1.5. **"Investment Regulations"** refers to the regulations as prescribed under the MFMA (Act No. 56 Of 2003) through Government Gazette No. 27431 dated 1 April 2005.
- 1.6. **"Liquidity"** refers to a financial ability of the municipality or any other company to service its debts when falling due,
- 1.7. **"MFMA"** refers to the Municipal Finance Management Act, (Act 56 of 2003),
- 1.8. **"Minister"** refers to a Cabinet member responsible for finance,
- 1.9. **"Optimal Yield"** refers to maximum interest earned on investment.

## 2. PURPOSE OF THIS POLICY

The purpose of this policy is to ensure that investment of surplus funds forms part of the financial management procedures of the Mngoma Local Municipality and to ensure that prudent investment procedures are applied consistently.

## 3. REGULATORY FRAMEWORK

According to Section 11(3)(a) of the Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000) a municipality exercises its legislative function by developing and adopting policies, plans, strategies and programmes, including setting targets for delivery.

According to Section 13(1)-(2) of the Local Government: Municipal Finance Management Act, 2003

*"(1) The Minister, acting with the concurrence of the Cabinet member responsible for local government, may prescribe a framework within which municipalities must—*  
*(a) conduct their cash management and investments; and*  
*(b) invest money not immediately required.*  
*(2) A municipality must establish an appropriate and effective cash management and investment policy in accordance with any framework that may be prescribed in terms of subsection (1)."*

## 3. IMPLICATIONS OF THIS POLICY

This policy will give a clear guide on how to invest money that is not available for use and what steps you follow.

#### 4. OBJECTIVES OF THIS POLICY

The objectives of the Investment Policy of the Mquma Local Municipality are as follows: -

- Ensuring that investments are placed with reputable institutions, for the purpose of safety of capital investment, and diversification of the Investment Portfolio,
- Ensuring that adequate liquidity is maintained at all times, for management of cash flows,
- Ensuring that the municipality receives optimal yield / interest on its investments with financial institutions, at minimal risk.

#### 5. LINKS TO OTHER POLICIES

The policy is linked to the following policies:

Budget Policy  
Cash Management Policy  
Supply Chain Management Policy

#### 6. POLICY STATEMENTS

Before planning to invest funds externally, consideration shall be given to whether the funds may be utilized at an equivalent rate to substitute external borrowing as there is normally a margin between the rate at which the Mquma Local Municipality may borrow funds and the rate at which investments may be made over similar periods.

The Mquma Local Municipality's excess current account funds shall be put into the call account and minimum amounts shall be retained in the current account.

Should it be ascertained that surplus funds are available for investment, written quotations including faxed quotations should be obtained from financial institutions for various forms of investment, investment terms and rates of interest in line with Supply Chain Management Policy of the municipality

The investment shall be placed with an institution offering the most favourable rate at the lowest possible risk provided such investment is in accordance with the terms and conditions of this policy.

Institutions shall be advised that, in submitting quotations, they must offer their best rates of interest and that no further negotiation or discussion will be entered into with them after they have submitted their quotation.

A certificate shall be issued in respect of each and every investment made by the financial institution receiving the investment.

No payment of any commission or payment in kind will be made to any party in respect of the investment so made.

## **7. INVESTMENT ETHICS**

In dealing with financial institutions, the following ethical principles shall be observed by the Mquma Local Municipality:

- [a] Under no circumstances may bribe to invest be accepted;
- [b] Interest rates quoted by one institution must not be disclosed to another institution.
- [c] The business ethics of any controlling body of which the relevant financial institution is a member must be observed by such institution or body at all times.

### **7.1. INVESTMENT PRINCIPLES**

The following guiding principles shall be adhered to in order to facilitate the administration of the Mquma Local Municipality's investment portfolio:

#### **7.1.1. LIMIT EXPOSURE TO A SINGLE INSTITUTION**

The Chief Financial Officer must ensure that long-term municipal investments are placed equitable amongst the approved financial institutions. No more than 40% of municipal investments must be placed with one institution, and in instances where valid reasons for deviation exist, that must be done with the approval of the Municipal Manager.

For short term municipal investments the municipality may exceed this threshold in investing funds.

#### **7.1.2. RISK AND RETURN**

Mquma Local Municipality will ensure that the best yield/return on investments is achieved at an acceptable risk level.

#### **7.1.3. INVESTMENTS DENOMINATED IN FOREIGN CURRENCIES**

Mquma Local Municipality may make an investment only if the investment is denominated Rand and is not indexed to, or affected by, fluctuations in the value of the Rand against any foreign currency.

#### **7.1.4. BORROWING FOR RE-INVESTMENT**

According to Section 12 of [Local Government: Municipal Finance Management Act 2003: Municipal Investment Regulations] a municipality may not borrow funds to invest.

#### **7.1.5. NOMINEE ACCOUNTS**

All moneys shall be invested directly with the relevant institutions.

On no account may moneys be placed in a nominee account.

#### **7.1.6. REGISTERED FINANCIAL INSTITUTIONS**

When investments are made with Financial Institutions, the Mquma Local Municipality shall ensure that the Institution is registered in terms of the Deposit Taking Institutions Act of 1990 and/or other applicable legislation.

#### **7.1.7. CREDIT WORTHINESS**

Prior to investing in registered financial institutions, the Chief Financial Officer shall ensure that the Mquma Local Municipality is not over-exposed and shall satisfy itself as to the credit-worthiness and previous track record of the institution before placing funds.

Investments shall only be made with financial institutions with a shareholder's equity of at least R750m.

The shareholder's equity figure shall be obtained from the latest available financial statements of the relevant financial institution.

#### **7.1.8. CONTROL OVER INVESTMENTS**

A proper record must be maintained of all investments made indicating at least the Institution, fund, interest rate, maturing date and purpose of investment.

The Chief Financial Officer shall retain all quotations received for record and audit purposes.

Interest shall be correctly calculated, received and recorded timeously.

All investment certificates shall be kept in a securities file, which shall be safeguarded in a safe.

In respect of grant funds, a separate file must be kept of the letter of grant and other pertinent information. Regular reports shall be submitted to all grant funders.

The Chief Financial Officer shall compile and be responsible for the maintenance of an Investment Register complying with audit requirements.

### **8. PERMITTED INVESTMENTS**

The municipality will invest funds only in any of the following investment types -

- securities issued by the national government;
- listed corporate bonds with an investment grade rating from a nationally or internationally recognised credit rating agency;
- deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
- deposits with the Public Investment Commissioners as contemplated
- by the Public Investment Commissioners Act, 1984 (Act No. 45 of
- deposits with the Corporation for Public Deposits as contemplated by
- the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984);
- banker's acceptance certificates or negotiable certificates of deposit of
- banks registered in terms of the Banks Act, 1990;
- guaranteed endowment policies with the intention of establishing a sinking fund;
- repurchase agreements with banks registered in terms of the Banks Act, 1990;
- municipal bonds issued by a municipality; and
- any other investment type as the Minister may identify by regulation in terms of section 168 of the Act, in consultation with the Financial Services Board.

- an investment grade rating from a nationally or internationally recognised credit rating agency;
- deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
- deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No. 45 of 1984) or deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984);
- bankers acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990;
- guaranteed endowment policies with the intention of establishing a sinking fund;
- repurchase agreements with banks registered in terms of the Banks Act, 1990;
- municipal bonds issued by a municipality;

The choice of the financial instrument will depend on the purpose of the investment and the cash flow patterns of the municipality.

## **9. REPORTING**

The Accounting Officer shall quarterly submit a report to the council the Council's investment portfolio, including the type of investment, interest rates, period of investment and summary of the exposures to particular financial institutions.

## **10. APPROVAL OF THIS POLICY**

### **10.1. CONSULTATION**

The management and labour will be consulted in respect of the approval of, and any changes that may be made to this policy.

### **10.2. FINAL ADOPTION**

Council is the formulator of, and decision maker where, policies are concerned. The final approval of this policy rests with the Mngquma Local Council on recommendation of the Executive Mayor.

### **10.3. IMPLEMENTATION AND REVIEW OF THIS POLICY**

This policy shall be implemented once approved by Council. All future investments must be made in accordance with this policy.

In terms of section 17 (1) (e) of the MFMA this policy must be reviewed if necessary on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.

#### 10.4. DATE APPROVED

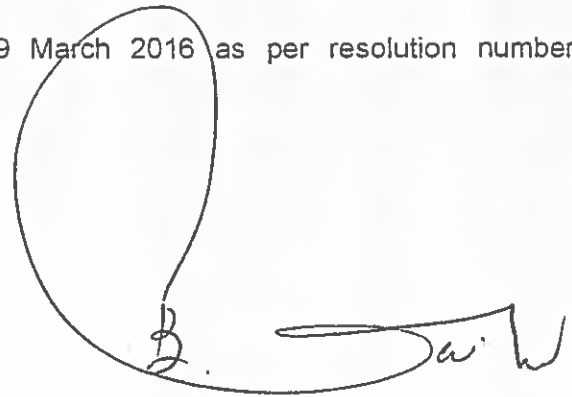
The policy was adopted by council on the 29 March 2016 as per resolution number OCM3/16/007.1.2.3(vii)

#### AUTHENTICATION

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S. TANTSI  
MUNICIPAL MANAGER

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B. GANJANA  
EXECUTIVE MAYOR